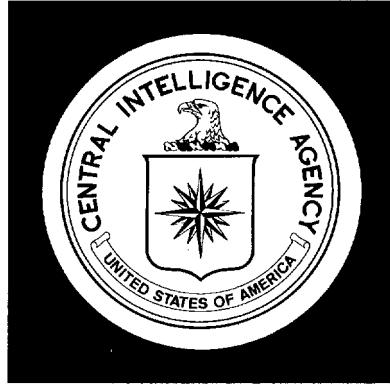


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DIA and DOS review(s) completed.

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ARAB STATES - ISRAEL: Only scattered incidents occurred on the Syrian and Egyptian fronts yesterday.

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The press and officials in Cairo and Tel Aviv have been conducting a war of nerves with conflicting reports on the inevitability of war and the likelihood of peace. The reports--fed to the Western press, carried in local newspapers, and issued in oblique official statements--are probably designed partly to put pressure on the enemy and the superpowers and partly to mask intentions, but they may also reflect genuine uncertainty about future policy.

The Egyptians, in particular, appear to hope that some progress toward breaking the diplomatic impasse will result from Israeli Defense Minister Dayan's current visit to Washington and from Secretary Kissinger's visit to Cairo and other Middle East capitals next week. Despite press reports that the Egyptians have informed both the UN and the US that they will not reopen the Kilometer 101 disengagement talks, public comments from official government spokesmen continue to be somewhat less categorical. They leave open the possibility that the talks may be resumed and that, in any case, the Geneva peace conference might be convened without prior progress toward disengagement.

Signals on whether or not hostilities will resume are mixed. Chief of Staff Shazli revised and strengthened his statement of a few days ago which suggested that military action is unlikely in the near future unless the Israelis start it. The new version indicates that Cairo would wait and see how things go in the peace conference and in the Israeli elections on 31 December before making any changes in the current situation, unless the Israelis launch)

can offensive. Publication of the Shazli interview has been stopped by "higher authorities," probably because it would be inconsistent with the high level of tension Cairo has been trying to project and because it would take some of the heat off the issue of the unfulfilled disengagement commitment. The gist of Shazli's statement appears to be corroborated by a statement on 4 December attributed to the Soviet military attaché in Cairo to the effect that the military situation will not deteriorate further. The Cairo press, nevertheless, continues to talk stridently of the "inevitability" of renewed fighting if Israel does not take steps "which exonerate it from the suspicion of working intentionally to obstruct a solution."

A similar contradiction appears in Israel. The press continues to note the high state of alert on all borders and stresses the need to maintain the alert, but notes that there is only a slim possibility that an all-out confrontation will flare up. According to press reports in Tel Aviv, plans for a possible resumption of military negotiations with Egypt have been put off until Defense Minister Dayan finishes his talks with Secretary Kissinger. Radio Israel, meanwhile, has carried a statement by Deputy Premier Allon warning the Arab states that, if the war resumed, Israeli reaction would be beyond anything the Arabs expected. The US defense attaché in Tel Aviv reports that, despite hawkish public and private statements by Israeli military leaders, it is evident that they and the Israeli people really do not want a return to war. They reportedly would fight if necessary, but do not need or want any more casualties.

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SOUTH KOREA: President Pak has continued his efforts to ease domestic unrest by releasing most students arrested since campus demonstrations began on 2 October. The release of 19 of the students still under detention will not resolve Pak's campus problems, because protesters are likely to press for the freeing of all students arrested last summer for antigovernment activity. Cold weather and the closing of the schools, however, will help the government; campus disturbances in Seoul have already ended for the most part.

The President's moves--which come only a few days after his cabinet reshuffle and the ouster of the South Korean CIA chief--are intended to demonstrate a conciliatory attitude toward student and intellectual groups calling for basic political reform.

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CANADA: Prime Minister Trudeau's preview of his forthcoming energy policy probably will ensure the government's survival when it faces a no-confidence motion on Monday. The government's plans include creation of a state petroleum company and extension of the freeze on oil prices through the winter. The proposals will be presented in detail next February to the new parliamentary session. These moves should permit the New Democratic Party, which holds the balance of power in Parliament, to save face with its followers and continue to support the government.

The Alberta provincial government, meanwhile, has introduced legislation to establish an oil and gas board that would give the province control over the marketing and pricing of these products. About three quarters of Canada's oil and natural gas is produced in Alberta.

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USSR - COMMUNIST PARTIES: All the major European Communist parties have evidently agreed to meet next year.

A meeting of East and West European parties will give Moscow a further opportunity to coordinate Communist Party activity and to secure formal endorsement of Brezhnev's detente policy. In addition, Moscow probably expects that a successful meeting of the European parties will pave the way for an International Communist Conference (ICC) later in 1974 or early in 1975.

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[redacted] has told the US Embassy in Moscow that the Romanian and Yugoslav parties, which boycotted the last all-European conference in 1967, have agreed to attend the meeting planned for early next year. This suggests that Moscow has agreed to play down the China issue at both the European meeting and the ICC. [redacted] reportedly told a senior Soviet party official recently that China must be invited to the ICC, that no flat condemnation of China should be made, and that no single prescription for Communist action should emanate from the conference. How far the Soviets will go in meeting these demands is not clear, but a Soviet ideological specialist told a US Embassy officer in Moscow recently that no effort would be made at the ICC to read Peking out of the Communist movement.

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Endorsement of an ICC by the Hungarian and Bulgarian party chiefs on 6 December is further evidence that the Soviet drive for a conference is picking up steam. [redacted]

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South Vietnam: South Vietnamese forces retook the district capital of Kien Duc in Quang Duc Province on 7 December. Enemy resistance was light, suggesting that North Vietnamese units had moved away from the town.

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International Monetary Developments: The dollar strengthened on major foreign exchange markets yesterday as pressure against the guilder intensified. The Dutch central bank was forced to intervene in fairly active trading to maintain the guilder within the European band and to slow the appreciation against the dollar. Pressure on the guilder, stemming from fear of a successful Arab embargo on oil to the Netherlands, has led to speculation that it will be devalued by at least 5 percent. Dutch Finance Ministry denials of intent to devalue were unsuccessful in dampening speculation pressures. Although underlying conditions do not appear sufficient to justify a guilder devaluation, a successful speculative attack cannot be ruled out.

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Angola-China: After refusing to accept Communist aid for more than a decade, Holden Roberto, leader of one of the principal Angolan rebel groups, is in Peking seeking military and political support.

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China - Upper Volta: China on 3 December extended its first economic aid to Upper Volta, a \$49-million credit for which no specific projects were announced. Negotiations on Chinese credits have been under way for several months.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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